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KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D.C. 20036

(202) 955-9600

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FACSIMILE
(202) 955-9792

ROBERT J. AAMOTH
DIRECT LINE (202) 955-9676
E-MAIL: raamoth@kelleydrye.com

May 4, 2000

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
Office of the Secretary
445 Twelfth Street, SW Room TWB-204
Washington, D.C. 20554

Re: Ex Parte Presentation in CC Docket No. 99-333

Dear Ms. Salas:

Yesterday Steve Davis, Jim Payne and the undersigned attorney, on behalf of Qwest Communications International Inc. ("Qwest"), met with Jim Bird, Michelle Carey, Lisa Choi, Helen Domenici, Eric Einhorn, Claudia Fox, Chris Libertelli, Pam Megna, Bill Rogerson, Dan Shiman, Don Stockdale and Henry Thaggert of the FCC regarding the above-referenced proceeding. The meeting focused upon the impact of the proposed merger between MCI WorldCom and Sprint on the provision of telecommunications services to U.S. Government users. The attached presentation summarizes the discussion and was distributed at the meeting. In addition, Qwest provided to the FCC a copy of the attached GAO report on the FTS 2001 contracts. Lastly, the parties discussed Qwest's perspective on competitive conditions affecting the provision of mass market telecommunications services.

In accordance with Section 1.1206 of the Commission's rules, an original and one copy are being filed with your office.

Sincerely,

Robert J. Aamoth

cc: Jim Bird
Michelle Carey
Lisa Choi
Helen Domenici
Eric Einhorn
Claudia Fox
Chris Libertelli
Pam Megna
Bill Rogerson
Dan Shiman
Don Stockdale
Henry Thaggert

QWEST *EX PARTE* PRESENTATION

JOINT APPLICATIONS FOR TRANSFER OF CONTROL

FILED BY MCI WORLDCOM, INC. AND SPRINT CORPORATION

(CC DOCKET NO. 99-333)

MAY 3, 2000

I. THE MCI/SPRINT MERGER WOULD UNDERMINE COMPETITION FOR PROVIDING TELECOMMUNICATIONS SERVICES TO US GOVERNMENT USERS

- **THE US GOVERNMENT SPENDS $400 BILLION EACH YEAR ON GOODS/SERVICES**

- **THE US GOVERNMENT WILL SPEND MORE THAN $26 BILLION ON INFORMATION TECHNOLOGY THIS YEAR, AND BY 2004 IT WILL BE $34 BILLION**

- **ONLY THREE CARRIERS PROVIDE LONG DISTANCE SERVICE TO THE US GOVERNMENT – MCI AND SPRINT THROUGH FTS 2001, AND AT&T UNDER THE FTS 2001 BRIDGE CONTRACT AND ITS DEFENSE CONTRACTS**

- **GSA ESTIMATES THE VALUE OF THE FTS 2001 CONTRACTS AS UP TO $2.3 BILLION**

- **MCI AND SPRINT *EACH* RECEIVE A MINIMUM REVENUE GUARANTEE OF $750 MILLION (TOTAL $1.5 BILLION), REPRESENTING APPROXIMATELY 67% OF TOTAL PROGRAM REVENUES**

- **FTS 2001 MINIMUM REVENUE GUARANTEE WILL NOT BE SATISFIED UNTIL 2004 (CONTRACT YEAR 6)**

- **US GOVERNMENT AGENCIES PRESSURED TO TAKE SERVICE UNDER FTS2001**

- **MCI/SPRINT MERGER WOULD RESULT IN ONLY TWO LONG DISTANCE CARRIERS (AT&T AND MCI/SPRINT) DOMINATING US GOVERNMENT USERS**

  - **THIS DEFEATS US GOVERNMENT'S DESIGN FOR POST-AWARD COMPETITION BETWEEN MCI AND SPRINT**

  - **SINCE THE MERGER WAS ANNOUNCED, SPRINT HAS FAILED TO BID ON CERTAIN CONTRACTS.**

- **RESULT WOULD BE LESS COMPETITION, FEWER SERVICE CHOICES, SLOWER TECHNOLOGICAL GROWTH, AND HIGHER RATES FOR US GOVERNMENT USERS**

II. THE FCC HAS AUTHORITY TO CONSIDER THE EFFECTS OF THE PROPOSED MERGER ON THE PROVISION OF TELECOMMUNICATIONS SERVICES TO US GOVERNMENT USERS

- **SECTIONS 214(a) AND 310(d) PROVIDE THAT THE FCC SHALL APPROVE THE MERGER ONLY IF IT PROMOTES THE PUBLIC INTEREST**

- **THE PUBLIC INTEREST STANDARD IS A FLEXIBLE REGULATORY TOOL TO SECURE THE "BROAD AIMS" OF THE COMMUNICATIONS ACT**

- **PROMOTING COMPETITION IN THE PROVISION OF SERVICES TO US GOVERNMENT USERS FALLS WITHIN THE AMBIT OF THE PUBLIC INTEREST**

- **THE FCC NEED NOT DECIDE WHETHER TELECOMMUNICATIONS SERVICES TO US GOVERNMENT USERS CONSTITUTES A SEPARATE MARKET**

  - ➢ **HISTORIC FCC RECOGNITION OF US GOVERNMENT AS A SEPARATE MARKET SEGMENT**

  - ➢ **"GOVERNMENT" AS SEPARATE CLASS OF COMMUNICATIONS UNDER SECTION 201(b)**

  - ➢ **PUBLIC INTEREST BROADER THAN ANTITRUST PARADIGM**

III. THE FCC MUST TAKE ACTIONS TO ENSURE THAT US GOVERNMENT USERS BENEFIT FROM COMPETITIVE CHOICES

- CURRENT FTS 2001 STRUCTURE IS AN ENTRY BARRIER FOR NEW ENTRANTS LIKE QWEST

- OPENING UP THIS MARKET WILL GENERATE SUBSTANTIAL SAVINGS FOR US GOVERNMENT USERS

- THE US GOVERNMENT MARKET OFTEN LEADS THE WAY FOR PRICE REDUCTIONS AND SERVICE INNOVATIONS IN BROADER MARKET SECTORS

  - MORE CHOICES, MORE TECHNOLOGICAL DEVELOPMENT AND LOWER PRICES FOR NON-GOVERNMENT CONSUMERS

IV. THE FCC CAN EFFECTIVELY PROMOTE THESE PUBLIC INTEREST OBJECTIVES BY IMPOSING CONDITIONS ON ITS APPROVAL OF THE MCI/SPRINT MERGER

- **THE FCC HAS AUTHORITY TO IMPOSE CONDITIONS ON A MERGER TO PROMOTE THE PUBLIC INTEREST**

- **THE FCC SHOULD WORK DIRECTLY WITH GSA AND OTHER US GOVERNMENT USERS TO CRAFT APPROPRIATE CONDITIONS**

- **QWEST PROPOSES THE FOLLOWING CONDITIONS THAT WOULD ENABLE GREATER COMPETITION IN THE PROVISION OF SERVICES TO US GOVERNMENT USERS:**

  - **MCI/SPRINT SHOULD COMMIT TO WAIVE ANY LEGAL OR OTHER RIGHT THEY MIGHT HAVE TO OPPOSE A "FRESH LOOK" POLICY FOR FTS 2001**

  - **MCI/SPRINT SHOULD COMMIT TO ACCEPT A SINGLE REVENUE GUARANTEE OF $750 MILLION UNDER FTS 2001**

  - **MCI/SPRINT SHOULD COMMIT NOT TO EXPAND THE SCOPE OF FTS 2001 TO INCLUDE LOCAL SERVICES, STATE AND LOCAL GOVERNMENT USERS, OR OTHER CONTRACT MODIFICATIONS (WITH THE EXCEPTION THAT FTS 2001 COULD BE EXPANDED TO ENSURE PARITY WITH SCOPE OF FTS 2000)**

United States General Accounting Office

GAO

Report to the Chairman, Committee on Government Reform, House of Representatives

April 2000

TELECOMMUNICATIONS

GSA's Estimates of FTS2001 Revenues Are Reasonable

GAO

Accountability * Integrity * Reliability

GAO/AIMD-00-123

GAO Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

Accounting and Information Management Division

B-284758

April 14, 2000

The Honorable Dan Burton
Chairman
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

The General Services Administration's (GSA) Federal Technology Service (FTS) provides its customers with a broad range of end-to-end telecommunications services, including global voice, data, and video services, supporting both local and long-distance government telecommunications users. Its FTS2000 long-distance services reached more than 1.7 million users through two multibillion dollar 10-year contracts that were awarded to AT&T and Sprint in December 1988. Two contracts have since been awarded for the successor FTS2001 program–one to Sprint in December 1998 and one to MCI WorldCom in January 1999. The federal government is now in the process of transitioning from the FTS2000 to the FTS2001 long-distance telecommunications program.

On March 1, 2000, we briefed your office on the results of our review of the GSA's revenue estimation process for FTS2001 and provided answers to four questions you asked regarding the FTS2001 contracts' minimum revenue guarantees (MRGs) and the implications of allowing other service providers to compete in the FTS2001 market.

To answer these questions, we analyzed the process and assumptions GSA used to develop program revenue estimates and time frames for meeting the MRGs. We also contracted with Technology Futures, Inc.–experts in telecommunications forecasting—to assist in our review of the revenue estimation process and to develop an independent high-level estimate of potential FTS2001 program revenues. We conducted our review from January 2000 through March 2000 in accordance with generally accepted government auditing standards, and on March 22, 2000, we received comments on this report from the GSA FTS Assistant Commissioner for Service Development, the Assistant Commissioner for Service Delivery, and the Deputy Assistant Commissioner for Acquisition. Additional details on our objective, scope, and methodology are contained in appendix I. This report provides a summary of our briefing. Our detailed briefing slides are presented in appendix II.

The FTS2001 Program

GSA awarded two contracts for the FTS 2001 program–one to Sprint in December 1998 and one to MCI WorldCom in January 1999. Each contract is for 4 base years from the date of award with four 1-year options, and each contractor is guaranteed minimum revenues of $750 million over the life of the contracts. Major federal agencies committed themselves to transition their requirements expeditiously from FTS2000 contracts to FTS2001 upon award of those contracts and to use the FTS2001 contracts to meet their core requirements. However, unlike the FTS2000 program, agencies are not required to use FTS2001 for their telecommunications requirements. Agencies that opt to use the program will have access to a wide range of services including long-distance, toll-free, and 900 voice services; international services; internet and intranet-based services; and low-speed and high-speed data communications services.

The FTS2001 program also provides for further competition beyond the two contractors already selected. Service providers who are awarded contracts under GSA's Metropolitan Area Acquisition (MAA) program–which provides local telecommunications services in selected geographic areas–may be permitted to compete for the FTS2001 business (1) if allowed by law and regulation, (2) after the FTS2001 contracts have been awarded for a year, and (3) if GSA determines that it is in the government's best interests to allow such additional competition.

Results in Brief

We found that GSA's revenue estimation process, which relies on historical and known agency requirements for FTS2001-offered services, produced a reasonable estimate of program revenues. Our independent, high-level estimate, which used the most currently available traffic forecasts and pricing information, produced essentially the same estimate–about $2.3 billion in revenue over the life of the FTS2001 program, assuming all 4 of the contracts' option years are exercised. During our review, we also identified a number of technical issues with regard to GSA's revenue estimation process that did not affect the integrity of its revenue estimates. We have included these issues in our presentation enclosed in appendix II to this report, and we will discuss these issues, along with our specific recommendations, in a separate letter to the Administrator of the General

Services Administration. The following summarizes the answers to each of the specific questions you asked.

Question 1: What percentage are the MRGs of the FTS2001 contracts?

Answer: The MRGs–a total of $1.5 billion–represent about two-thirds of current estimated program revenues over 8 years.

Question 2: When are the MRGs likely to be satisfied?

Answer: According to the results of both GSA's analysis and our own independent analysis based on current requirements forecasts, the FTS2001 MRGs are expected to be satisfied for both contractors during fiscal year 2004 (contract year 6).

Question 3: What sensitivities are there in each of the estimates provided in (1) and (2)? What factors could significantly alter these estimates?

Three primary factors could significantly alter estimates of total program revenue and corresponding time frames for satisfying the MRGs: pricing, agency demand for FTS2001 services, and transition progress.

- Price reductions, resulting from additional competition under the MAA program or the price management mechanisms in the FTS2001 contracts,[1] would decrease estimated revenues to the two FTS2001 service providers and increase the time needed to satisfy the MRGs.
- Agency demand for FTS2001 services could also alter estimates. For example, we noted that GSA's projections for growth in agency data communications services were lower than private sector trends. To test the sensitivity of this assumption, we developed a sensitivity analysis using a data communications growth rate more consistent with private sector trends, as described in appendix I. The results of this sensitivity analysis demonstrated that using a more aggressive data communications growth rate significantly increased total estimated revenues. As this additional growth would primarily occur in the outyears of the program, however, the estimated MRG time frame is unaffected.

[1]The FTS2001 contracts include a requirement for periodic price management efforts to ensure that FTS2001 prices are competitive with prices paid by other large users of telecommunications services.

- Delays in the current transition schedule could also decrease estimated revenues and lengthen the time needed to satisfy the MRGs. GSA originally expected the FTS2001 transition to be complete as of June 2000, but progress has been slow to date. As of February 17, 2000, GSA managers reported that only 26 percent of agency site transitions were completed and the remainder would be completed from now through December 2000.

Question 4: If additional competitors were permitted to compete for the FTS2001 business, how might that competition affect the estimates provided? Would reduced prices/transition costs brought about by such competition offset the impact on estimates?

Answer: Additional competition could yield price reductions, cause further transition delays, and reduce demand for services from the two existing FTS2001 contractors. In turn, these factors would decrease program revenues and lengthen the time needed to satisfy the MRGs. In regard to the potential benefits of reduced prices and transition costs, it is difficult to quantify the effect on estimates without knowing an added competitor's prices or the specifics of related transition costs. However, two factors would have to be considered in such an analysis. First, savings in transition costs would occur only if the new competitor was an incumbent FTS2000 provider and only to the extent that transition costs have not yet been incurred. Second, reductions in revenues to current FTS2001 contractors would increase the time frame for satisfying the MRGs. If MRGs are not satisfied during the contracts' term, GSA may be liable for additional payments to the contractors.

Agency Comments

On March 22, 2000, we met with the GSA FTS Assistant Commissioner for Service Development, the Assistant Commissioner for Service Delivery, and the Deputy Assistant Commissioner for Acquisition to obtain oral comments on a draft of this report. They agreed with the information presented and with our answers to your questions. They also suggested a few technical changes that we have incorporated as appropriate.

We are sending copies of this report to Representative Henry Waxman, Ranking Minority Member, House Committee on Government Reform. We are also sending copies to the Honorable Jacob J. Lew, Director of the Office of Management and Budget, and David J. Barram, Administrator of the General Services Administration. Copies will be made available to others upon request.

If you have any questions regarding this report, please contact me or Kevin Conway, Assistant Director, at (202) 512-6240 or by e-mail at *koontzl.aimd@gao.gov* or *conwayk.aimd@gao.gov*. Other major contributors to this work were Cristina Chaplain and William B. Ritt.

Sincerely yours,

Linda D. Koontz

Linda D. Koontz
Associate Director
Governmentwide and Defense Information Systems